

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
CDS STONERIDGE UTILITIES, LLC FOR)	CASE NO. SWS-W-03-1
APPROVAL OF AN AMENDMENT TO ITS)	
CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY TO INTERCONNECT WITH)	
AND ACQUIRE THE SERVICE TERRITORY)	
OF HAPPY VALLEY RANCHOS, INC. AND)	ORDER NO. 29320
TO IMPLEMENT A SURCHARGE.)	

On March 17, 2003, CDS Stoneridge Utilities, LLC (Stoneridge; Company; SU) filed an Application seeking Commission authorization to interconnect its water system to the adjoining Happy Valley Ranchos, Inc. (HVR) water system, to borrow funds from the Idaho Department of Environmental Quality (DEQ) to complete the construction of the project, to amend its Certificate of Public Convenience and Necessity (CPCN) to include the HVR customers within the Stoneridge service territory, and to implement a surcharge on the rates for connecting HVR customers to service the debt and finance charges that will be incurred to complete the interconnection project.¹

The Commission suspended Stoneridge's Application and ordered the Company to continue to charge only its current customers the Commission-approved rates and charges until a Commission Order was issued accepting, rejecting or modifying the Company's Application and HVR customers are provided water service by Stoneridge. Order No. 29254 at 1. The Commission also issued Notice of Application, Notice of Public Workshop, Notice of Modified Procedure, and Notice of Written Comment Deadlines. *Id.* The Commission Staff submitted its written comments on July 7, 2003. Fifteen HVR customers filed written comments.

After reviewing the record the Commission grants Stoneridge's Application for the reasons discussed in our findings.

THE APPLICATION

As stated previously Stoneridge requested Commission authorization to interconnect its water system with the neighboring water system, HVR. Sometime in 2002, HVR initiated

¹ HVR is currently a homeowner's association water system.

discussions with Stoneridge regarding the possible interconnection of the two systems. On January 11, 2003, HVR sent correspondence to Stoneridge contending that 82% of its water users in attendance at a homeowner's association meeting voted in favor of the interconnection project.² Exhibit B to the Application. HVR desired to interconnect with the Stoneridge system to obtain better quality water. The parties contend that the HVR system supply is of limited quantity and has experienced water quality problems in the form of high iron concentration that requires fairly expensive filtration. In comparison, Stoneridge has two wells with large quantities of good quality water (600 and 800 gallons per minute), an existing chlorination system and a substantial amount of storage. After comprehensive negotiations between the two companies Stoneridge agreed to connect its system to the HVR system, subject to Commission approval and receipt of DEQ financing from the State Drinking Water Revolving Fund. Exhibit A. On May 2, 2003, Stoneridge and HVR finalized this agreement in the "Water System Transfer and Acceptance Agreement" that was filed with the Commission on May 14, 2003.

The Company has obtained the services of James A. Sewell and Associates consulting engineers to assist with project engineering and agency review. The Company's engineering consultant filed a report with the Commission entitled "CDS Stoneridge Utilities L.L.C. & Happy Valley Ranchos Water System Connection 2003 Engineering Report" on May 15, 2003. The engineering report provides detailed engineering calculations for the design of the interconnection project and some minor HVR system upgrades. It also includes a detailed cost estimate for the project as well as a recommended recovery method for the construction costs. The report estimates the total project cost to be \$213,500. Stoneridge has requested an equivalent loan amount from the State Drinking Water Revolving Fund that is administered by DEQ. The Company proposes to recover the debt and financing costs of this project by implementing a surcharge of \$12.65 per month on the bills of each customer benefiting from the interconnection. Presently that includes only the existing HVR water customers. However, the Company also proposes to apply the surcharge to any new customers connecting to the system downstream of the booster pump station serving the HVR system. The addition of new customers in this location could lead to the retirement of the costs of this project more quickly.

² On August 1, 2003, HVR filed information showing that of the 60 current HVR customers attending the meeting on December 12, 2002, 43 voted for the interconnection project and 9 voted against it.

The surcharge is intended to recover only the debt service costs (principal and interest) to amortize the State Drinking Water Revolving Fund loan over 20 years.

Once the interconnection is complete, the Company proposes to merge the operations of the HVR system with the Stoneridge system. Stoneridge will cancel the existing HVR rates and charges and begin charging the HVR customers all existing Stoneridge Utilities approved rates and charges plus the surcharge. The Company is not proposing any changes in rates at this time to the existing Stoneridge Utilities customers. The following is a comparison of the existing HVR and Stoneridge rate schedules together with the surcharge proposed to collect the debt service costs:

Existing Happy Valley Ranchos

Base Charge	\$ 5.00	Existing loan surcharge	Monthly
Base Charge	\$ 24.00	including the first	20,000 gallons
	\$ 2.50	per 1000 gal for the next	10,000 gallons
	\$ 5.25	per 1000 gal for the next	10,000 gallons
	\$ 8.50	per 1000 gal for over	40,000 gallons

Existing Stoneridge Rates

Base Charge	\$ 14.00	Monthly
Commodity Charge	\$ 0.30	per 1000 gal

Proposed Happy Valley Ranchos Rates

Base Charge	\$ 14.00	Monthly
Commodity Charge	\$ 0.30	per 1000 gal
Proposed Surcharge	\$ 12.65	Monthly

Finally, Stoneridge stated that on March 28, 2003, a notice of its Application was provided to all customers on both water systems.

COMMENTS

1. Commission Staff

The Commission Staff reviewed the engineering report, performed an on-site investigation of the physical system, had lengthy discussions with DEQ, Stoneridge, and its engineer, and held a public workshop at the Stoneridge Event Center in Blanchard, Idaho on June 23, 2003.

Staff stated the interconnection project will be composed of approximately 3500 lineal feet of 8-inch transmission main, a fire hydrant, associated valves and fittings. Staff also found that because the HVR system is higher in elevation, a duplex 150 gallon-per-minute 125-psi booster pump station is required between the two systems. The booster station is situated

adjacent to the existing Stoneridge 315,000-gallon reservoir. Staff also found that the project also included some minor system improvements to the HVR system. Staff further noted that the HVR system's existing 32,000-gallon storage tanks are to be cleaned and additional system flushing blow-offs are to be installed.

Staff stated the project is scheduled to begin construction once the DEQ loan is finalized and the project receives agency approval. The initial project construction schedule anticipated completion by fall of 2003 but because of likely weather concerns a more realistic construction schedule will be completion in spring of 2004. Staff also stated that once the interconnection project is completed and water can begin flowing, the existing HVR well will be disconnected from the system and properly abandoned. Staff also believed that given the amount of iron residue and iron bacteria in the HVR system, additional tank cleaning and improved flushing ability provided by the interconnection will be needed to achieve water quality approaching that of the Stoneridge system. Staff stated it may take as much as a year or more of working with the HVR system before the majority of the iron will be completely removed. Therefore, the two systems will remain isolated to avoid cross contamination.

Staff also found that the existing Stoneridge supply and storage appears to be adequate to serve both systems as Stoneridge is designed for a much larger customer base. Therefore, there remains excess storage and pumping capacity available to serve additional customers. If at some point in the future water production becomes a problem, Staff noted that the Stoneridge system is located over the Rathdrum Prairie Aquifer, which is known to contain huge reserves of high quality water. However, it is evident that the HVR system is not located over the same aquifer. HVR has attempted four times to find higher quality water and has been unsuccessful. Therefore, Staff believed the proposed interconnection and merger of the Stoneridge and HVR systems was the most practical and technically feasible method of providing a satisfactory water supply to the HVR homeowners.

Staff also found that the engineering report was professionally completed and the engineer who prepared it was able to answer all of its questions regarding service, supply and design. The proposed interconnection design appears capable of adequately serving the HVR system without detrimentally affecting service to the existing Stoneridge customers. Staff also stated that DEQ has reviewed the proposed project and found it sufficiently favorable to reduce the interest rate for the requested loan from 3.75% to 2%. Staff believed DEQ was proposing

this because the consolidation of the two systems will provide significant public benefit. Based on the foregoing, Staff believed the project solves problems for the HVR customers without harming customers of Stoneridge.

In regard to the surcharge to cover the costs of the project, Staff and Stoneridge agreed that the surcharge should neither harm nor benefit the Company. Thus, Staff recommended that the Company be authorized to recover only the project debt and financing costs through the surcharge. In addition, Staff recommended that the actual surcharge be implemented only after construction is completed, the loan is closed, all costs are known and service is rendered to HVR customers. Even though Staff believed that all interconnection construction and financing costs should be included in the surcharge calculation, Staff urged the Company and its engineer to make every attempt to control construction costs. The proposed surcharge is the third surcharge estimate provided to the HVR customers and the costs have increased with each estimate. Staff recommended that the Company provide Staff and the Commission with the results of the project construction bids and resulting surcharge estimate. The additional information should provide an additional degree of certainty for final construction costs. If costs have increased significantly from those proposed, Staff asserted that additional review might be warranted before construction costs are expended and the project is completed. Staff recommended that the Commission keep the case open and reserve final approval of the surcharge amount until construction is completed, the interconnection is operational and all debt and financing costs are known and measurable.

Staff agreed with HVR's proposal of what customers the surcharge should be applied to. Staff also stated it would continue to work with the Company to establish proper accounting procedures for recording surcharge funds and expenditures. Staff will further assist the Company to properly record the improvements and revenues in the Company's annual reports.

The Commission in Case No. GNR-W-98-1, Order No 28206, approved the existing Stoneridge rates of \$14 per month plus \$.30 per 1000 gallons. These rates were based on 23 residential customers, 2 commercial customers, the condominium association and the golf course. The number of customers has grown slowly since the rate case. Currently there are 36 residential and 13 commercial customers and by interconnecting the HVR system, Stoneridge will add the 86 HVR residential customers. Water companies generally experience economies of scale with increases in number of customers and Staff believed that Stoneridge will likely

experience unit cost savings as a result of the acquisition of these 86 customers. Therefore, Staff recommended that the Stoneridge rates be reviewed in two years from the time of the interconnection to ensure that the Company is not over-earning from the addition of the HVR customers.

Staff found the existing Stoneridge rates are significantly below the existing HVR rates. Thus, even with the proposed surcharge the cost to HVR customers may be less than their existing rates depending on customer usage. The greatest rate increase for HVR customers would be at a usage of 20,000 gallons per month. The increase at 20,000 gallons is less than \$4.00 per month for a much improved water supply. HVR customers using more than approximately 22,000 gallons per month would see a rate decrease, and those using from 7,800 to 21,700 would see an increase of less than \$4.00 per month.

If the merger is approved, residents of HVR water system will become customers of Stoneridge Water Company. Staff found that Stoneridge is in compliance with the rules and regulations of the Commission, including the Utility Customer Relations Rules, (IDAPA 31.21.01.000), Utility Customer Information Rules, (IDAPA 31.21.02.000) and Small Water Company Policies, (IDAPA 31.36.01.000). The portion of the existing HVR homeowner's association by-laws applicable to the water system will be superseded by Stoneridge's tariffs. Stoneridge has also prepared a rules summary, which will be sent to all customers following approval of the merger. IPUC rules can be reviewed at the local office of Stoneridge Water Company, or on line at <http://www.puc.state.id.us/Rules.htm>.

Stoneridge's current tariffs can be found on the Commission's website. However, the current tariffs will not include the surcharge for HVR water customers until the Commission has determined the appropriate surcharge. Staff stated it would work with Stoneridge to prepare a new tariff showing the surcharge for HVR water system customers at the completion of this case.

The Stoneridge development is operated and controlled under a number of different organizations. The parent company has added a strictly utility-limited liability company since the initial certificate was issued and has operated the utility solely through this company since its inception. Staff believes that this organization will facilitate the review of utility finances and potentially avoid the commingling of funds between the development company, golf course, or any other of the operations and the water utility.

2. Customer Comments

As stated previously, the Commission received comments from 15 HVR customers that would be affected by this project. These commenters supported Commission approval of this project mainly because they felt they would receive better quality water from the Stoneridge system. Several commenters also noted that more than 82% of all HVR water users supported the merger with the Stoneridge system. Finally, a few commenters also were pleased that their rates would not increase significantly or at all after the project is completed and water service provided to them.

Some commenters did raise concerns about the cost of the interconnection project. One commenter was opposed to paying for a fire hydrant that would only serve the lower tiers of the HVR development. Another requested a hearing to investigate the costs that would be incurred to complete this project. However, this commenter also supported going forward with this project.

COMMISSION FINDINGS

The Commission has thoroughly reviewed the record in this proceeding and is prepared to make the following findings.

1. The Interconnection Project

Stoneridge and HVR seek to interconnect their water systems in order that the current HVR customers can receive water service from Stoneridge.

The Commission received 15 written comments from customers of the current HVR system who unanimously supported the proposed interconnection project mainly because they believe it will provide them with higher quality water than they are currently provided by the HVR system. The commenters also supported this project because they believe that Stoneridge will provide better service and management of the combined water system at a cost that is similar to what they are paying now. In addition, a majority of the water users on the HVR system support this project as shown by their vote at a homeowner's association meeting. Only two written comments raised concerns about the project. One commenter stated that customers on the higher tiers of the HVR system should not have to pay for fire hydrants that will be installed as part of this project that will only serve the lower tiers of the HVR development. Another commenter requested a hearing to investigate the costs of the project. However, this commenter did support the project. The Commission assures these commenters that it will thoroughly

review the final costs of this project to insure that they were prudently incurred and necessary for this interconnection project prior to being passed on through a surcharge.

It is evident from the comments and the materials submitted by Stoneridge that the current HVR system has experienced water quality problems in the form of high iron concentration that requires fairly expensive filtration to correct. The Commission also notes that HVR's current system is of limited quantity, a problem that the Stoneridge system does not have. The Stoneridge system also has higher quality water that is taken from the Rathdrum Aquifer. This system also has an existing chlorination system to address any possible water quality problems. Furthermore, after the interconnection project is completed it appears that HVR customer rates will not be materially changed. Accordingly, the Commission finds that this project will provide significant benefits to the HVR customers that will be connected to the Stoneridge water system after the project is completed. The Commission also finds that Stoneridge and its current customers will in general benefit by adding the 86 customers from HVR to its system because water companies generally experience economies of scale with increases in the number of customers. Based on the foregoing, the Commission grants Stoneridge's Application to undertake this interconnection project.

2. Authority to Incur Debt

In order to undertake this project Stoneridge requested that the Commission authorize it to incur an estimated \$213,500 in debt to pay for this project. As discussed previously Stoneridge is attempting to secure these funds from DEQ through the State Drinking Water Revolving Fund. Staff was informed by DEQ that the interest rate on Stoneridge's loan if approved would be 2%. Stoneridge has proposed to recover the financing of these costs (principal and interest) by implementing a surcharge on HVR customers that benefit from this project until the debt is retired.

Under the Idaho Code, a regulated water utility like Stoneridge must receive authorization from the Commission to incur long-term debt with respect to its property situated in Idaho. *Idaho Code* § 61-901. The Commission finds that it is necessary and appropriate for Stoneridge to borrow \$213,500 from the State Drinking Water Revolving Fund to finance this interconnection project. The general purposes to which the proceeds will be put are lawful under the Public Utility Laws of the State of Idaho and are compatible with the public interest. Therefore, the Commission authorizes Stoneridge to incur this debt for the purpose of this

interconnection project should DEQ approve its request to receive financing from the State Drinking Water Revolving Fund. Stoneridge shall file the final loan documents with the Commission when completed.

3. Surcharge

The Company has requested that the costs of the interconnection project be recovered by a 20-year surcharge on the rates for those benefiting from this project. Currently, that includes only the HVR customers and would also be applied to any customer joining the system who is downstream of the interconnection point between Stoneridge's and HVR's systems. Based on the estimated debt that the Company will incur for this project and the number of HVR customers that the surcharge would be applied to, the monthly amount would be \$12.65.

The Commission finds that the Company's method to recover the debt to complete this project is reasonable. Accordingly, once the interconnection project is completed the Company is authorized to use a monthly surcharge placed on the bills of the HVR customers that are joining Stoneridge's system until the debt is retired. In addition, the Commission finds that any customer joining the system downstream of the interconnection point will also be required to pay this surcharge. Additions to the system in this fashion could lead to retirement of the debt sooner. The Commission shall also require that all surcharge funds be used exclusively for payment or prepayment of the State Drinking Water Revolving Fund loan.

The Commission, however, reserves judgment on the amount of the monthly surcharge until the loan is finalized and disbursed from the State Drinking Water Revolving Fund. Once this occurs the Company, as stated previously, is directed to file all loan documents, construction bids, an updated surcharge calculation and any additional materials that will aid the Commission in its review and determination of what the reasonable and prudent surcharge amount should be. In this regard, the Commission also encourages the Company and its engineer to make every attempt to control and keep the costs of this project within reason.

4. Amendment of Certificate

The Commission also finds that granting this Application makes it necessary to amend Stoneridge's Certificate of Public Convenience and Necessity No. 395 to include both the current HVR customers and the HVR water system within its service area. The Commission also shall amend the name on Stoneridge's Certificate No. 395 from CDS Stoneridge Associates-Land LLC to CDS Stoneridge Utilities, LLC, in order to facilitate a better review of the utility's

finances and to potentially avoid the commingling of funds between the development company, golf course or any other operations of the water utility.

5. Rates for Service

In Order No. 28206, Case No. GNR-W-98-1, we approved the existing Stoneridge rates for water service. At that time Stoneridge was authorized to charge its 23 residential customers \$14 per month per meter plus \$.30 per 1000 gallons for all gallons consumed. Order No. 28206 at 2 and 7. Stoneridge now has 36 residential customers that are being charged this rate. As stated previously, after the interconnection Stoneridge will add 86 HVR customers to its rate base. Staff recommended that the Commission authorize the use of the existing Stoneridge rates for all former HVR customers once the interconnection project is completed. In addition, Staff recommended that the Commission review these rates in two years to ensure the Company is not over-earning. Based on this recommendation, the Commission authorizes Stoneridge to continue charging its existing rates to its current customers and to the HVR customers once they are provided service by the utility.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction and authority over CDS Stoneridge Utilities, LLC, a water utility, and the issues raised in this Application, pursuant to Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

IT IS HEREBY ORDERED that CDS Stoneridge Utilities, LLC's Application to undertake a project to interconnect its water system to the HVR water system is granted. To aid the Commission in the continued review of this project the Company is directed to file the results of the project construction bids under this case number.

IT IS FURTHER ORDERED that CDS Stoneridge Utilities, LLC is authorized to incur indebtedness in the principal amount of \$213,500 for the purposes described in its Application. The Company is directed to file the final loan documents with the Commission under this case number.

IT IS FURTHER ORDERED that Stoneridge is authorized to use a surcharge only to recover the debt and financing costs that will be incurred to complete this project. The Commission orders the surcharge to be applied monthly, only to the HVR customers once the

interconnection project is completed and water service is provided to them. Any customer that joins the interconnected water system downstream of the booster pump station serving the HVR system will also be required to pay the surcharge. The surcharge will be utilized until the debt and associated financing costs are retired.


IT IS FURTHER ORDERED that the Commission reserves judgment on the appropriate amount of the surcharge until the State Drinking Water Revolving Fund loan is finalized and disbursed and construction costs are more certain.

IT IS FURTHER ORDERED that Stoneridge's Certificate of Public Convenience and Necessity No. 395 shall be amended to change its name to CDS Stoneridge, LLC and to include both the current HVR customers and the HVR water system and territory within its service area.

IT IS FURTHER ORDERED that CDS Stoneridge Utilities, LLC shall continue charging its approved rates to its current customers and shall also apply them to the HVR customers once they are provided water service by the utility.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

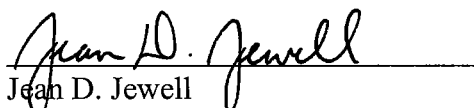
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 26th
day of August 2003.


PAUL KJELLANDER, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


DENNIS S. HANSEN, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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